

**TOWN OF DEDHAM, MASSACHUSETTS**

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2010

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YEARS ENDED JUNE 30, 2009**

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# ROSELLI, CLARK & ASSOCIATES

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CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT CONSULTANTS

## TRANSMITTAL LETTER

The Honorable Members of the Board of Selectmen  
Town of Dedham  
Dedham, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Dedham, Massachusetts, (the "Town") as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the Board of Selectman, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Roselli Clark & Associates*

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
January 3, 2011

## I. OVERVIEW

The Town has managed its financial operations very well over the past two fiscal years despite the prolonged nation-wide recession that have caused reductions in local receipts and local aid from the Commonwealth of Massachusetts. Overall fund balances reported in the Town's major strategic reserves have actually increased by about \$0.3 million over this period of time, while many other communities are experiencing decreases.

The Town's strategic reserves, which include the undesignated fund balance in its General Fund, its General Stabilization Fund, and its OPEB Trust Fund approximate \$9 million which is just over 10% of the 2010 General Fund budget. Bond rating agencies tend to view a metric of this degree very favorably and as a result, the Town maintained its AA+ bond rating.

In addition, the Town maintains a very healthy Sewer Enterprise Fund balance that exceeds \$5 million on a cash basis.

Despite this, we are cautioning all our Towns to be as vigilante as ever in protecting reserves. Reserves are a buffer against any hiccups to the budget process such as lower than estimated local receipts and reductions to State Aid. Without reserves, Towns place themselves at risk of dipping into deficit positions that are always difficult to climb out of.

Also on a positive note the Town works vigilantly to cure prior year findings. Progress on prior year comments are as follows:

- (1) In response to our comments on fraud and investment policies, a Financial Policies Committee was established by the Board of Selectmen. This committee has held four meetings. In addition to reviewing the overall Financial Management, Investment and Debt Policies which currently are in effect, it is also evaluating policies on Fraud, defining the adequacy of funding foreseeable future obligations and OPEB considerations.
- (2) In response to our information technology comments, the Town (a) began the process of aggressively researching efforts into new financial managements systems, (b) held fact finding meetings with all levels of users, (c) attended webinars and (d) held meetings on certain products. The Town anticipates obtaining additional funding at the upcoming Town Meeting and if successful will create an RFI/RFP during the calendar year.
- (3) In response to our comments regarding the recognition of unrealized investment gains and losses, the Finance Director established a policy to facilitate the posting of these gains and losses on a monthly basis.
- (4) In response to our comments on warrant authorization, the Town Meeting approved a Charter change allowing the Town Administrator final sign off on all Warrants.

- (5) In response to our comment regarding unauthorized bank accounts, the Town is in the process of identifying organizations that use bank accounts with the Town's tax identification number so they can instruct them on the proper procedures to follow.
- (6) In response to our comment regarding the inadequacies in the grant reconciliation process, the Town has recoded general ledger accounts so that multiple years are exposed rather than aggregated. This will facilitate a more efficient reconciliation.
- (7) In response to the cut-off policy issues regarding activities that deposit their own funds, the Town is evaluating these procedures with the School Department with the hope that guidelines will be developed that prevent these occurrences in the future.
- (8) In response to our comment regarding the Chapter 90 reimbursement process, the Finance Director has met with Public Works and Engineering. In these meetings, the importance of adequate cash flow was stressed.

The remainder of this report is dedicated to informational items, recommendations and findings that will assist the Town in improving its internal control structure. As time allows, we would expect the Town to dedicate the necessary resources to cause the removal of these items from future Management Letters.

## **II. INFORMATIONAL ITEMS**

### **OTHER POST EMPLOYMENT BENEFITS**

Based on the size of Town's annual revenues, the Town was required to begin reporting other post employment benefits (OPEB) in its financial statements for the year ended June 30, 2009. The Town was able to implement in the required year and should be commended for doing so. The Town's latest actuarial report reflected a liability of approximately \$74.0 million. This represented a significant improvement over the prior valuation liability of \$112.6 million. This improvement of almost \$40 million is directly attributable to the Town contributions to OPEB over the past two years. Valuations will reward a Town with a more favorable discount rate in the instance where there is evidence of contributions. We suggest the Town continue contributing to OPEB to maintain this positive momentum. This will also be viewed very favorably by the bond rating agencies.

### **SEPARATELY ISSUED REPORTS**

Reviews of the following activities were summarized and issued in a separate report. We encourage readers to review these reports in conjunction with this report.

- Single Audit Report.
- End of Year Pupil and Financial report.
- Agreed upon procedure report for Council on Aging.
- Agreed upon procedure report for the Building Inspector.

### **REPORTING UPDATE**

In March 2009, the GASB issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. Statement 54 is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types.

Fund balance—the difference between assets and liabilities in the governmental fund financial statements—is among the most widely and frequently used information in state and local government financial reports. The GASB developed Statement 54 to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standards establish a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe spending constraints imposed upon how resources reported in governmental funds may be used.

Statement 54 distinguishes fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent.

Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Restricted—amounts constrained by external parties, constitutional provision, or enabling legislation
- Committed—amounts constrained by a government using its highest level of decision-making authority
- Assigned—amounts a government intends to use for a particular purpose
- Unassigned—amounts that are not constrained at all will be reported in the general fund.

The new standards also clarify the definitions of individual governmental fund types. It interprets certain terms within the definition of special revenue fund types, while further clarifying the debt service and capital projects fund type definitions. The final standard also specifies how economic stabilization or “rainy-day” amounts should be reported.

GASB Statement 54 is effective for financial statements for periods beginning after June 15, 2010 (fiscal year 2011). The Bureau of Accounts is amending the UMAS manual to reflect these changes, however statutory compliance is optional.

## **REGIONALIZATION OPPORTUNITIES**

One of the stronger trends currently gaining momentum in government is the collaboration of efforts to preserve critical services and reduce costs. This movement is called regionalization. Many communities are in the process of collaborating with neighboring communities in attempts to achieve this goal. The Town has already experienced some of the benefits of regionalization by providing water services to its residents through a host agency. We encourage the Town to research what other possibilities exist with neighboring communities by contacting them and determining what services can be performed in a collaborated effort and also see what funding is available from the State to help fund the initial costs of such research in that regard. The current hottest areas are dispatch, health and inspectional services.

## **2001 CMR 17/RED FLAG RULE**

On March 1, 2010, most businesses that store information about a Massachusetts resident were required to comply with Commonwealth Regulation 2001 CMR 17.00 issued through the Massachusetts Office of Consumer Affairs and Business Regulations. While local government entities are exempt from complying with this CMR, a Federal regulation “the Red Flag Rule”, applies to municipalities effective June 1, 2010, with enforcement beginning as of December 31, 2010.



The regulation mostly pertains to the secure maintenance of sensitive information such as social security numbers, birth dates credit card information etc.

We encourage the Town to review the detailed regulations regarding “Red Flags” and implement the necessary processes to comply.

## **FRAUD PREVENTION MEASURES**

In these trying economic times, it is reasonable to expect that the frequency of fraud and theft by employees, customers and vendors may increase. The Town should be well aware of this increased risk and take additional measures to better safeguard the Town’s cash and other assets. Fraud can include theft, the misappropriation of assets such as cash or easily marketable equipment like computers, the execution of transactions with related parties that are not disclosed and not completed “at arm’s length,” or the modification or fabrication of financial records to protect job security. The Town must increase its focus and awareness of fraud risks throughout all areas of local government. Suspicious or unusual activity, particularly in cash handling areas, should be promptly investigated.

We suggest the Town implement the following:

### **1. Develop a Written Fraud Policy**

Implement written fraud risk policies. Such a policy would direct the Town to perform a risk assessment that would allow the Town to identify, analyze and manage the risk of fraud. (See discussion on Financial Policies Committee on page 2)

*Management Response: The Town is evaluating and redrafting all Town Financial Management Policies and will evaluate risk assessment as part of that process.*

### **2. Establish a Limited Internal Audit Process**

The Town does not have sufficient resources to create an autonomous, internal audit function. However, under Chapter 41 of MGL, the Town Accountant or equivalent position has the ability to examine books and records of any department on a periodic basis, and at least on an annual basis.

We suggest that the Town Accountant cycle audit the cash handling departments. A different department should be chosen each month, and the cash handling for that month should be reconciled independently. For example, in the area of building permits, the number of permits issued multiplied by the amount per permit should be reconciled back to the cash turned over.

Such a process would provide an excellent deterrent against fraud.



The Town should be aware that our audit procedures are designed to provide reasonable assurance that the financial statements are fairly presented and free of material misstatement. Our audit includes considerations for fraud; however, no assurances can be given that we would detect fraud through our audit. Our audit cannot be relied upon to detect fraud or illegal acts that may exist.

*Management Response: The Town will evaluate the recommendation for future consideration in job functions and duties – but does not currently have the staff trained to perform such functions.*

### **III. FINDINGS AND RECOMMENDATIONS**

#### **HUMAN RESOURCE FUNCTION**

The Human resource area is the source of the most internally generated litigation from employees. As such the Town should endeavor to assure that processes and policies within this area are sound.

##### **1. I-9 Forms**

Fully completed and executed I9 forms are required by Homeland Security, as a condition of employment. It helps assure that employers hire only those individuals legally allowed to work in the United States. These forms are required to be maintained for up to 3 years after the termination of employment, and then may be discarded.

We tested such compliance for 25 employees and determined that in 4 situations, the Town failed to comply with this regulation. This represents a 16% failure rate of the selected sample.

In addition, for those individuals where an I-9 form existed, the form was co-mingled within the personnel file instead of in a separate file, and in some instances an additional copy of the I-9 form was maintained at the School Department.

It is suggested business practice to maintain a single copy of an I-9 form and maintain all I-9 forms in one file for all employees. This will give the Town the ability to exclude any other personnel file information in the case of an I-9 audit. If they are in the same file as all other personnel information, then every item in the file is subject to the audit.

In addition, we suggest the Town conduct an internal I-9 audit and secure I-9s in those situations where they are missing. The fines for noncompliance in this area are severe.

##### **2. W-4 Forms**

As a condition of employment, the Town should assure that it secures a W-4 form from each employee and maintain this in the employee's personnel file.

We tested such compliance for 25 employees and determined that in 3 situations, the Town failed to comply with this regulation. This represents a 12% failure rate of the selected sample. As discussed above all files should properly contain this documentation and the Town should endeavor to secure this.

*Management Response: For some time now the Town has recognized the need for a Human Resource function, ideally for both the Town and School departments. The current economic climate prevented us from adding positions to the budget. In the future, as funds become available, this will be a priority.*

## REAL ESTATE WARRANTS

The Assessor's Warrant is the document that legally allows the Tax Collector to collect taxes on behalf of the Town. We noted that the Assessor's Warrants for fiscal year 2010 were not properly authorized by the Assessor's Office. The reason for such non-compliance was due to turnover in the department. Nonetheless, every effort should be made to comply with this requirement.

*Management Response: Now that the Assessor's office personnel understand the requirements they will be met.*

## SCHOOL LUNCH

1. During our receipts testing, we identified approximately \$850 of expenditure reimbursements that were paid out of the daily cash receipts. We also learned that it is the practice of the department to replenish its petty cash from cash receipts. This practice is not in accordance with Massachusetts General Law which requires all expenditures to be examined by the Town Accountant and approved on a warrant by the Selectmen.
2. A daily deposit totaling approximately \$2,100 was not credited to the food service bank account until ten business days after the money was taken in. The Food Service Director was unsure why the delay occurred. Bank deposit confirmation slips should be matched to the daily deposit within three days to ensure that the cash of the Town is properly safeguarded.
3. Daily meal count sheets at the elementary schools must be tallied manually to determine the number of paid, free and reduced meals served. These counts are used to determine the amount of reimbursement received from the Federal National School Lunch Program. The current manually system is susceptible to clerical error and is inefficient. Ideally the food service department would utilize the same computerized system that is currently used at the Middle and High School to capture these meal counts. At the end of each week, the meals count sheets for each elementary school could be keyed into the system which could print summary reports to complete the reimbursement forms at the end of the month. If the food service department chooses not to fully utilize the system, then spreadsheets should be used to summarize the data from the weekly meals sheets in order to more accurate and efficiently account for meals served.

*Management Response: The School Department has established new procedures and a copy has been provided to the Auditors for their review.*

**ORGANIZATION OF RECORDS**

During our audit we observed that many documents; invoices, warrants, vouchers etc. are not always filed in an organized, easily accessible manner or filed at all. In fact, in some situations, we were unable to locate all warrants to complete our testing. The Town should take the necessary steps to create adequate storage to facilitate a more organized filing process.

Management Response: *We agree and are working on a plan to revamp the processing and filing procedures.*

**RETIREMENT WIRES (continued from prior year)**

Monthly wires may be initiated and completed by the Retirement Administrator without further authorization from the Treasurer's Office. The Retirement office should work with the Treasurer's office and the bank to design better controls around this transaction type.

Management Response: *The matter will be discussed with the Retirement Board.*